extendicare ltd./annual report 1977

financial highlights/extendicare ltd.

	1977	1976	1975	1974	1973
Revenues					
Skilled Nursing Centres	**$42,007,864**	$27,152,994	$22,893,296	$17,740,024	$11,192,215
Medical, Surgical, Pharmaceutical Supplies and Equipment	**23,049,244**	21,346,099	22,679,600	13,192,166	
Diagnostic Centres and other	**6,117,376**	5,393,957	3,386,475	3,407,829	2,900,319
Gross Revenue	**71,174,484**	53,893,050	48,959,371	34,340,019	14,092,534
Earnings before the undernoted	**5,270,095**	4,454,204	3,776,313	2,613,931	1,782,788
Provision for Income Taxes	**2,487,852**	2,179,535	1,978,117	1,295,903	837,808
Earnings before minority interest and extraordinary items	**2,782,243**	2,274,669	1,798,196	1,318,028	944,980
Minority Interest	**92,558**	25,864	(102,357)		
Earnings before extraordinary items	**2,689,685**	2,248,805	1,900,553	1,318,028	944,980
Per share	**1.32**	1.12	.96	.80	.59
Net earnings after extraordinary items	**2,689,685**	2,484,468	1,911,329	1,559,090	1,165,980
Per share	**1.32**	1.24	.96	.94	.72
Total Assets	**$64,857,554**	$46,523,212	$45,980,175	$41,933,178	$28,741,679
Operational Nursing Centre beds at August 31	**6,429**	3,784	3,912	3,412	2,684

chairman's message

To our shareholders:

In this ninth annual report, your board of directors is pleased to record Extendicare's sixth consecutive year of successful performance in satisfactory profits and continued growth in its expertise of delivering quality health care services.

Through geographical expansion and increased breadth of services, your company was able to record a significant increase in earnings in fiscal 1977. Extendicare had consolidated revenue of $71,174,484, compared with $53,893,050 for the previous 12-month period. Net earnings from continuing operations were $2,689,685 or $1.32 per share, up from fiscal 1976 net earnings of $2,248,805 or $1.12 per share. These results reflect the satisfactory performance of all our subsidiaries and divisions with the exception of Hartz Standard Ltd., which has not yet attained the potential we had anticipated.

We have good reasons to look to the future growth of Extendicare. For health care institutions and governments alike, today's economic problems have created a dilemma of how to provide an acceptable level and standard of care with fewer available dollars. At Extendicare, we are confident that through effective professional management we can help provide a solution to this dilemma. Extendicare's ability to deliver excellent health care has earned it increasing support from governments and the investment community, both of which are essential to its continued growth.

In some provinces, where a large segment of extended care is provided through non-profit institutions, governments are acknowledging that the ownership of health care facilities need not change as long as they are managed by experienced professionals. Extendicare is in an ideal position to capitalize on this growing awareness of the need for effective, multi-unit management. Its unique status of continuously demonstrating effective expertise within its own operations has enhanced its credibility and considerably increased its international reputation. One result of this has been a number of negotiations for Extendicare to manage hospitals abroad. During fiscal 1977, we were and are presently involved in many discussions with governments and private investors to manage their health care facilities. I am confident that these discussions will lead to major expansion during the current fiscal year.

In fiscal 1977, Extendicare expanded its U.S. operations through a major acquisition of Medco Centers, Inc., a Kentucky corporation based in Evansville, Indiana, which operates 25 nursing homes in Kentucky and Indiana. Extendicare currently owns approximately 94 per cent of the common shares of Medco. Your Company's expanded presence in the U.S. means that it is now not only the largest Canadian-owned public company in Canada's health care delivery system, but is fast becoming a significant factor in the North American health care field.

An awareness of the need to meet both the changed conditions that Extendicare's rapid growth and expanded services have brought about and the new challenges its anticipated growth will undoubtedly engender, prompted your board of directors to implement a major restructuring of the corporate organization on January 1, 1978.

Mr. J. Wesley Carter has been appointed Executive Vice-President responsible for the operating subsidiaries and divisions. Mr. Richard A. Gardner and Mr. Jacob Birbrager have been appointed Corporate Senior Vice-Presidents of Administration and Engineering respectively. Mr. Winston Ling has joined the Company as Senior Vice-President of Finance. These gentlemen, together with your Chairman, will constitute the corporate management group.

The operations of the Company's Canadian health care activities, which include skilled nursing centres, clinical laboratories and home care, have been set up as a separate division under the direction of Mr. Gerry Hiebert, the Vice-President and General Manager. Our subsidiary, Extendicare Development and Management Ltd., has been activated and strengthened to reflect the Company's emphasis in these two areas. Mr. John Carter is now its President. Messrs. Hiebert and Carter together with the Presidents of our other subsidiaries, Medco Centers, Inc., Hartz Standard Ltd. and United Health Maintenance Inc., and the members of the corporate management group constitute Extendicare's Planning Committee.

The board of directors wishes to record its gratitude to Mr. John MacKay, who has recently retired as President of the Company to pursue other interests. His contribution to Extendicare has been of great value.

Extendicare continues to enjoy the co-operation and confidence of provincial and state governments, the shareholders and the general public, whose support we gratefully acknowledge. Their support has been a significant factor in the successes we have been able to record during the past year. The most important contribution to our successes, however, has been that of our employees, who now number in excess of 5,000, and who can be proud of the excellent results they have achieved. The health care field becomes more complex and demanding each year. New services are introduced, more regulatory bodies must be dealt with and new technology and social developments continually produce change. Extendicare is fortunate that its employees have responded to these challenges in a highly responsible manner. Their dedication and commitment is recognized and appreciated.

We enter our 10th anniversary year as a public company with confidence and optimism. We are convinced that improvements can be made in the North American health care delivery system. Your Company, with its professional approach, will have the opportunity to contribute to some of these improvements, which will provide benefits for Extendicare's shareholders and the public as well.

H. L. Lonergan

January 24, 1978

5-year financial and statistical highlights/extendicare ltd.

Number of Operational Skilled Nursing Centre and Hospital Beds

1977	6,429
1976	3,784
1975	3,912
1974	3,412
1973	2,684

Total Assets

1977	$64,857,554
1976	$46,523,212
1975	$45,980,175
1974	$41,933,178
1973	$28,741,679

Revenues

1977	$71,174,484
1976	$53,893,050
1975	$48,959,371
1974	$34,340,019
1973	$14,092,534

Total Patient Days in Fiscal Period

1977	1,949,714
1976	1,340,913
1975	1,160,179
1974	1,068,580
1973	726,050

Number of Employees at August 31

1977	5,075
1976	3,255
1975	3,021
1974	2,650
1973	2,075

Earnings Per Share from Continuing Operations

1977	$1.32
1976	$1.12
1975	$ .96
1974	$ .80
1973	$ .59

SKILLED NURSING CENTRES

health care division — canada

During fiscal 1977, the skilled nursing centres in Canada contributed $30,717 million in revenue, an increase of 13.8 per cent over the previous year. The number of patient days recorded totalled 1,350,096, an increase of 3.7 per cent. Community acceptance of the centres was reflected in consistently high occupancy rates.

The emphasis at Extendicare's nursing centres is on restorative rather than on custodial care. In addition to assuring the maximum safety, comfort and well-being of the residents, much attention is given to developing their participation in the multi-faceted activities of the centre, while maintaining their individuality, independence, dignity and sense of worth. The care provided by the trained staff in each centre is constantly supported by Extendicare's central expertise in dietary, in-service education, resident lifestyle and nursing systems.

Extendicare Ltd. currently owns, leases or manages 26 facilities, representing 4,060 licensed beds in Canada.

medco centers, inc.

The rapid increase in the aged as a percentage of the population is as profound a reality in the United States as it is in Canada. Fulfilling this need, Medco Centers, Inc., a company in which Extendicare has a 94 per cent interest, offers high quality nursing home care at an economical cost. Medco owns or leases 25 nursing centres, with 2,307 beds, in Indiana and Kentucky, and manages seven others (813 beds) under contract in Indiana and Texas. A growing demand for Medco's contract management expertise has become evident since Extendicare acquired the company early in 1977, and Medco officials are anticipating an extension of this service to other parts of the United States. Medco's size allows it to provide all the benefits of a professionally managed multi-unit operation. This is done with a specialized, highly motivated staff, through the sharing of corporate resources to help contain costs to the public, and by applying earnings effectively toward increasing the availability of its services.


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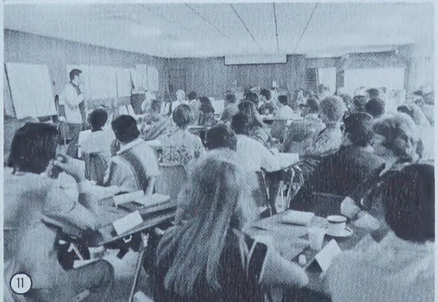


development and management

Providers of health service are today under severe financial constraint. The need among managers of all health care facilities, both proprietary and public-funded, is for specialized, experienced personnel who can cope with today's highly-complex administrative, financial and service problems. This is why Extendicare's skilled, service-oriented professionals are being increasingly utilized in health care delivery management and consulting.

During 1977 Extendicare signed contracts to manage nine nursing homes. Two of these are in Ontario and are being managed by the Toronto-based Health Care Division; seven are in the United States — two in Indiana and five in Texas — and are being managed by Medco Centers Inc. This brings the Company's managed facilities to 12, with a total of 1,473 beds.

Through its wholly-owned subsidiary, Extendicare Development and Management Ltd., the Company is able to arrange a total administrative program for any health care institution — staff supervision; dietary management; financial and accounting services, including sophisticated data information systems; personnel administration; purchasing; labour relations; and all phases of facilities design, financing and construction.

Extendicare Development and Management Ltd. is currently engaged in a number of serious negotiations to manage other health care facilities in Canada, United States and other countries and anticipates a high level of activity and progress during fiscal 1978.

1. *A travelling library is one of the many services provided to nursing home residents, often with the help of volunteer citizens.* **2.** *Social evenings, at which staff, residents and relatives join in the fun, are a frequent and popular feature of nursing home life.* **3.** *Mealtime, an important event in all Extendicare nursing homes, takes place in bright, airy and cheerful surroundings.* **4.** *A regular visit to the hair salon on the premises does wonders for the residents' morale and well-being.* **5.** *The emphasis in all Extendicare facilities is on personalized care — meeting the individual and particular needs of every resident.* **6.** and **7.** *Individual attention extends to food service, where personal preferences and/or dietary requirements are closely watched by nursing and dietary staff and every effort is made to satisfy them.* **8.** *View of the computer room — heart of the data information system which serves Extendicare's extensive operations.* **9.** *Many dedicated people are involved in each nursing home in assuring that both the general and individual needs of the residents are met.* **10.** *All residents get skilled nursing care from well-trained staff backed by the most up-to-date technology available.* **11.** *Staff training is an on-going process, at daily sessions in the nursing homes as well as at periodic courses and seminars.*

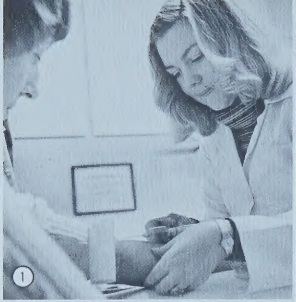
DIAGNOSTIC SERVICES

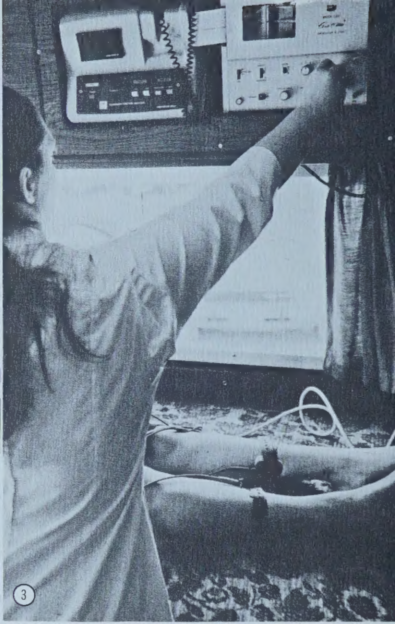
health care division — canada

Rapid, reliable testing and reporting form a vital link in the health care chain. The network of clinical laboratories operated by this division in Metropolitan Toronto performed over two million tests during the past year. It is widely used because of the acknowledged excellence of its staff specialists and the advanced technology they employ to process a comprehensive range of tests. A central quality control lab, 18-hour, six-days-a-week service, and units, introduced during the past year, that visit institutions to perform special services — all contribute to a service used by doctors with convenience and confidence.

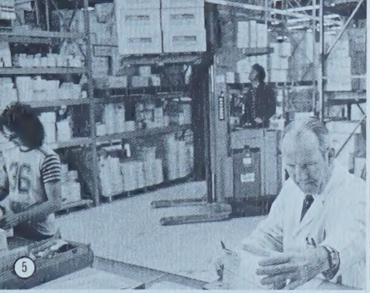
united health maintenance, inc.

United Health Maintenance, Inc., 80 per cent owned by Extendicare, is expanding steadily in the United States to meet a growing need for preventive health care. UHM operates a fleet of mobile multi-phasic screening units in several states. The 30-foot vans, staffed with highly qualified specialists, technicians and nurses and equipped with sophisticated medical equipment, provide a comprehensive group of on-site medical tests and laboratory procedures for people at plants, stores, office buildings and other commercial centers. The contribution of UHM's preventive care is encouraged by all segments of the health care field, as well as by governments, for it leads to early detection of disease, resulting in a reduction in the number of patient-days in hospitals, less time lost from work and improved personal health care. In fiscal 1977, UHM expanded into California, where it gained significant new contracts and is now developing a more diversified range of services.





1. *Blood tests are but one of some 110 different kinds of tests performed at Diagnostic Services' 13 Toronto laboratories.* **2.** *Diagnostic's up-to-date Monitor KDA Chemical Analyzer can hold as many as 100 samples at one time and automatically, rapidly and accurately handle 100 to 300 tests an hour, performing all the mathematical computations, maintaining the patient identification and providing data storage and permanent records.* **3.** *and* **4.** *The large vans operated by United Health Maintenance, Inc. take their sophisticated multi-phase screening tests directly to the neighborhood plazas.*



hartz standard ltd.

Quality medical and surgical equipment and supplies are basic to good patient care. Hartz Standard Ltd., a wholly-owned Extendicare subsidiary, is Canada's largest supply company in the field, with a coast-to-coast distribution, sales and service system. The people of Hartz Standard do more than provide over 60,000 products that meet almost any medical, surgical or nursing requirement. They are true members of an institution's health care team, consulting on the most up-to-date equipment available, new and different uses for existing products, warehousing and physical distribution techniques and in-service training. In fiscal 1977, Hartz Standard recorded a gross revenue of $23,049,244. With the addition of new personnel to the existing staff of specialists and reorganization of management functions, Hartz Standard has strengthened its operations for improved performance in fiscal 1978.

para-med personnel services ltd.

A skilled and sensitive nursing staff is the cornerstone of patient care. Recognizing that all other components of the health care delivery system would be ineffectual if the patient contact level is in any way deficient, the specialists of Para-Med Personnel Services Ltd., a wholly-owned subsidiary of Extendicare, work hard to staff and deliver high quality care to private homes, hospitals, nursing homes, industrial clinics, and other institutions. The field staff includes registered nurses, registered nursing assistants, male nursing attendants, health care aides and homemakers. During the year, Para-Med expanded with new offices in London and Ottawa. It also became involved, for the first time, in provincial services to meet the needs of the rapidly developing home care programs in many districts.

5. *One of the nine divisional warehouses across Canada from which Hartz Standard ships its products to hospitals and other health care institutions.* **6.** *Hartz Standard staff includes highly trained technicians who carefully check and service the numerous types of sophisticated equipment it distributes.* **7.** *The administrative staff at Para-Med are kept busy (some are on call around the clock) providing the wide variety of nursing and other personnel required for institutional and home health care.*

consolidated balance sheet

as at August 31, 1977

extendicare ltd.

(Incorporated under the laws of Canada)

Assets	1977	1976
Current		
Accounts receivable	**$ 8,088,666**	$ 5,691,301
Inventories (note 3)	**6,588,092**	5,025,630
Prepaid expenses and deposits	**751,004**	463,783
Trust funds held for residents	**333,080**	292,952
	15,760,842	11,473,666
Property and Equipment (note 4)	**40,911,478**	28,633,533
Other		
Other assets (note 5)	**2,121,517**	1,283,200
Deferred charges, less amortization	**682,358**	303,500
Deferred foreign exchange adjustment	**502,296**	
Goodwill (note 6)	**4,879,063**	4,829,313
	8,185,234	6,416,013
	$64,857,554	$46,523,212

Approved by the Board

H. L. Livergant

Director

D. A. Bradshaw

Director

Liabilities

	1977	1976
Current		
Bank indebtedness (note 7)	**$ 4,347,805**	$ 2,646,329
Accounts payable and accrued liabilities	**6,559,114**	4,561,762
Income taxes payable	**52,071**	359,472
Principal due within one year on non-current liabilities	**2,481,809**	2,002,683
Deferred income taxes	**658,217**	140,000
Trust funds held for residents	**333,080**	292,952
	14,432,096	10,003,198
Non-current liabilities (note 7)	**33,671,482**	22,558,741
Deferred income taxes	**2,659,558**	2,380,723
Minority interest	**401,450**	156,165

Shareholders' Equity

	1977	1976
Capital Stock (note 8)		
Authorized		
4,000,000 Common shares without nominal or par value		
500,000 Preferred shares of the par value of $10 each		
Issued and fully paid		
2,048,678 Common shares (1976 - 2,025,365 common shares)	**5,867,837**	5,718,470
Retained earnings (note 8)	**7,825,131**	5,705,915
	13,692,968	11,424,385
	$64,857,554	$46,523,212

Commitments and contingent liabilities (notes 11 and 12)

Auditors' Report

To the Shareholders and Extendicare Ltd.:

We have examined the consolidated balance sheet of Extendicare Ltd. as at August 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
November 14, 1977

Thorne Riddell & Co.
Chartered Accountants

consolidated statement of earnings

Year ended August 31, 1977

extendicare ltd.

	1977	1976
Revenue		
Skilled nursing centres	**$42,007,864**	$27,152,994
Medical, surgical, pharmaceutical supplies and equipment	**23,049,244**	21,346,099
Diagnostic centres and other	**6,117,376**	5,393,957
	71,174,484	53,893,050
Costs and expenses		
Operating	**55,147,558**	43,565,743
Administrative and general	**5,770,772**	2,339,176
Interest on non-current liabilities	**3,296,409**	2,409,484
Depreciation	**1,562,854**	970,700
Amortization of deferred charges and goodwill	**126,796**	153,743
	65,904,389	49,438,846
Earnings before the undernoted	**5,270,095**	4,454,204
Income taxes		
Current	**2,071,190**	2,030,934
Deferred	**416,662**	148,601
	2,487,852	2,179,535
Earnings before minority interest and extraordinary items	**2,782,243**	2,274,669
Minority interest	**92,558**	25,864
Earnings before extraordinary items	**2,689,685**	2,248,805
Extraordinary items		
Net gain on sale of properties and other assets less income taxes of $168,125 and minority interest of $334,234		235,663
Net earnings	**$ 2,689,685**	$ 2,484,468
Earnings per share (note 9)		
Before extraordinary items	**$1.32**	$1.12
After extraordinary items	**$1.32**	$1.24

consolidated statement of retained earnings

Year ended August 31, 1977

	1977	1976
Balance at beginning of year	**$ 5,705,915**	$ 3,664,995
Net earnings	**2,689,685**	2,484,468
	8,395,600	6,149,463
Dividends	**570,469**	443,548
Balance at end of year	**$ 7,825,131**	$ 5,705,915

consolidated statement of changes in financial position

Year ended August 31, 1977

	1977	1976
Working capital derived from		
Operations	**$4,693,943**	$3,547,713
Proceeds from sale of businesses and other assets, net of mortgages receivable taken back and working capital sold	**139,212**	2,173,950
Non-current liabilities assumed	**4,636,374**	1,401,698
Issue of shares		
For cash on exercise of stock options and warrants	**39,957**	125,025
On conversion of notes	**109,410**	
	9,618,896	7,248,386
Working capital applied to		
Additions to property and equipment	**1,706,341**	1,483,706
Acquisition of businesses, plus working capital deficiency in 1977 of $1,377,440	**1,467,440**	544,131
Dividends	**570,469**	443,548
Reduction in non-current liabilities	**5,256,237**	3,614,229
Purchase of minority interest in Medco Centers, Inc.	**370,992**	
Purchase of goodwill, being adjustment of prior year's acquisitions		82,056
Other items	**389,139**	366,889
	9,760,618	6,534,559
Increase (decrease) in working capital	**(141,722)**	713,827
Working capital at beginning of year	**1,470,468**	756,641
Working capital at end of year	**$1,328,746**	$1,470,468

notes to the consolidated financial statements

Year ended August 31, 1977

extendicare ltd.

1. Summary of accounting policies

The major accounting policies of Extendicare Ltd. and subsidiary companies are set out below. These policies are in accordance with generally accepted accounting principles and have been consistently applied.

(a) Principles of consolidation

The consolidated financial statements include the accounts of all subsidiary companies of which the more substantial are Hartz Standard Ltd. (100% owned), Medco Centers, Inc. (94% owned - acquired during the year) and United Health Maintenance, Inc. (80% owned).

Earnings from businesses purchased or sold are included from or to the effective dates of their purchase or sale.

(b) Translation of accounts into Canadian dollars

The accounts for foreign operations included in the consolidated balance sheet are translated at year end rates of exchange except that (a) property and equipment, deferred charges and accumulated depreciation and amortization are at rates at dates of acquisition and (b) deferred income taxes are at the rate used to translate the assets and liabilities to which they relate. The accounts for foreign operations included in the consolidated statement of earnings except depreciation, amortization and deferred income taxes are translated at average rates of exchange during the year.

The Company has for the most part borrowed funds to acquire and finance foreign operations in the same currency in which such operations are carried on and accordingly it is expected that borrowings will be repaid out of funds generated in the same currency.

The Company believes that it could be misleading to recognize immediately all translation gains or losses which arise from fluctuations in exchange rates. Accordingly, the net difference on translation at current rates of exchange of other assets and non-current liabilities from that in effect at the date of acquisition or origin has been deferred until realized and is shown on the balance sheet as "Deferred foreign exchange adjustment".

(c) Inventories

Inventories are valued at the lower of cost and net realizable value.

Cost is determined by the first in first out method. Net realizable value for resale merchandise is the selling price of the product less provision for normal selling costs.

(d) Property and equipment

Property and equipment is stated at historical cost. Provisions for depreciation are computed by either the straight line method or declining balance method at rates based on the following estimated life expectancies.

Buildings	—20 to 40 years
Furniture and equipment	—varying periods not exceeding 20 years
Leasehold improvements	—the term of the applicable leases.

The related leasehold interest included in other assets is stated at cost and is amortized on a straight line basis over the term of the lease.

(e) Deferred charges

It is the policy of the Company to defer revenues and operating expenses of new nursing centres and new division operations until such time as they are deemed operational. They are deemed to be operational in the month during which revenues equal or exceed expenses or one year from the date revenue is first earned, whichever first occurs. Net amounts deferred are then charged to earnings over three to five years on a straight line basis.

Direct loan costs are also deferred and amortized over the life of the related debt.

In addition, certain market development costs have been deferred and are being amortized over varying periods up to five years.

(f) Goodwill

Goodwill arises from the excess of purchase price for businesses over the fair value of assets acquired at the dates of acquisition. It may arise either through the purchase of assets or shares of a business.

Goodwill acquired subsequent to April 1, 1974 is amortized to earnings on a straight line basis, presently over forty years. Goodwill acquired prior to that date is carried in the accounts at cost without amortization.

(g) Income taxes

Income taxes charged in the consolidated statement of earnings represent both the portion currently payable and the portion which is deferred. The deferment of income taxes results from claiming depreciation and other items for tax purposes in amounts which exceed those recorded in the accounts and from filing certain U.S. federal income tax returns on a cash basis while the financial statements recognize revenues and expenses on an accrual basis.

(h) Revenue

The fees charged by the Company for its nursing home facilities and diagnostic services in Canada are subject to the regulated rate structures determined by the respective provincial authorities. Such regulation has been and is provided by the establishment of maximum rates for the industry rather than for individual entities within the industry (see note 13).

The fees charged by the Company for its nursing

home facilities in the United States include revenues resulting from residents participating in federal and state funded cost reimbursement programmes. These revenues are based on the approved prospective rates which were in effect from time to time during the period. Final cost settlement adjustments, if any, are recorded when objectively determinable.

(i) Comparative figures

The 1976 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1977.

2. Acquisitions

Effective December 1, 1976, the Company in a series of transactions acquired 81.5% of the outstanding shares of Medco Centers, Inc. which owns and operates directly or through subsidiaries 24 nursing homes in the states of Indiana and Kentucky. In addition Medco Centers, Inc. acquired from its principal shareholders 100% of the outstanding shares of Medco Center of Evansville North, Inc. which operates a nursing home business in the state of Indiana.

Effective January 1, 1977 the Company acquired the assets of a laboratory facility in Markham, Ontario.

These transactions have been accounted for by the purchase method.

Details of the transactions are as follows:

Net assets acquired at values assigned thereto		
Current assets	$ 2,037,195	
Property and equipment	12,459,098	
Other assets and deferred charges	736,064	
Goodwill	75,000	$15,307,357
Current liabilities	3,414,635	
Non-current liabilities	6,980,424	10,395,059
		4,912,298
Minority interest		515,932
		$ 4,396,366
Consideration given		
Cash		$ 90,000
Notes payable, 8-1/2% due 1979		207,000
Notes payable, 6% due in instalments to 1980		1,394,745
Bank term loan, at an interest rate varying with New York bank prime, maturing through to 1983		2,704,621
		$ 4,396,366

Effective May 1, 1977 the Company acquired a further 12.5% interest in Medco Centers, Inc. under an offer to purchase dated April 11, 1977.

3. Inventories

	1977	1976
Resale merchandise	**$ 5,807,060**	$ 4,404,787
Supplies	**781,032**	620,843
	$ 6,588,092	$ 5,025,630

4. Property and equipment

	1977	1976
Land	**$ 3,434,225**	$ 2,681,090
Buildings	**33,427,000**	23,949,251
Furniture and equipment	**7,649,865**	5,308,346
Leasehold improvements	**491,085**	320,738
	45,002,175	32,259,425
Accumulated depreciation	**5,640,199**	4,040,485
	39,361,976	28,218,940
Land, option, plans and construction in progress re future facilities	**1,549,502**	414,593
	$40,911,478	$28,633,533

5. Other assets

	1977	1976
Long term portion of mortgages and notes receivable	**$ 1,155,152**	$ 926,039
Loans to officers	**334,375**	225,000
Receivable from trustees for the account of employees in the restricted share purchase plan	**40,073**	120,711
Land, buildings and related assets of facility subject to sale agreement, at cost	**173,815**	
Leasehold interest, less amortization	**332,406**	
Sundry, at cost	**85,696**	11,450
	$ 2,121,517	$ 1,283,200

6. Goodwill

	1977	1976
Purchased goodwill (purchase of assets)	**$ 2,695,803**	$ 2,622,055
Excess of purchase price of shares of certain subsidiary companies over fair value of assets acquired (purchase of shares)	**2,183,260**	2,207,258
	$ 4,879,063	$ 4,829,313

7. Bank indebtedness and non-current liabilities

	1977	1976
The Company:		
First mortgages, 7-3/8% to 11-1/4% maturing through to 2007	**$17,696,920**	$17,263,392
Second mortgages, 9% to 11% maturing through to 1983 (1976 - 9% to 12%)	**1,198,643**	1,857,067
Convertible notes, 6-1/2% maturing through to 1980 (1976 - 5-1/2% to 7%)	**183,694**	288,692
8-1/2% Sinking Fund Debentures, due 1984	**2,034,000**	2,391,000
Bank demand term loan at an interest rate varying with bank prime	**500,000**	608,000
Promissory notes, 7% to 8% maturing through to 1981 (1976 - 7% to 9%)	**383,035**	628,110
Canadian Subsidiaries		
First mortgages, 11-3/4%, maturing 1981	**713,731**	719,155
Notes payable to minority shareholder, non-interest bearing	**26,360**	26,360
United States Subsidiaries		
Mortgages payable, 6% to 9-3/4% maturing through to 1996 (U.S. $4,021,457)	**4,323,066**	
Notes payable, 3% to 10.84%, maturing through to 1983 (U.S. 1977 - $2,647,934, 1976 - $779,648) (1976 - 6% to 10% maturing through to 1980)	**2,846,529**	779,648
Lease purchase and sales contracts payable, various rates to 11%, maturing through to 1993 (U.S. $2,411,454)	**2,592,313**	
Bank term loan, at an interest rate varying with New York bank prime, maturing through to 1983 (U.S. $3,400,000)	**3,655,000**	
	36,153,291	24,561,424
Less principal due within one year and included in current liabilities	**2,481,809**	2,002,683
	$33,671,482	$22,558,741

The weighted average annual interest rate of all non-current liabilities is approximately 9.8%.

Substantially all assets of the companies are mortgaged or pledged as security on bank indebtedness or non-current liabilities.

Principal payments on non-current liabilities due within the next five fiscal years after giving effect to renewal privileges are as follows:

1978	$2,481,809
1979	2,792,861
1980	2,572,779
1981	4,068,100
1982	1,898,961

Conversion privileges and rights relating to non-current liabilities are set out in note 8.

8. Shareholders' Equity

During the year 8,725 common shares were issued for $39,957 cash on exercise of stock options and 14,588 common shares were issued on conversion of $109,410 convertible notes.

Restrictions under the trust indenture securing the 8-1/2% Sinking Fund Debentures prohibit the payment of dividends which would reduce shareholders' equity, as defined in the trust indenture, below $3,000,000.

Under a bank debenture the Company has agreed, unless otherwise consented to by the bank, to restrict dividends to 50% of the Company's net earnings for the year. The dividends currently being paid by the company are well within the maximum established by this debenture.

The Company has 288,693 common shares reserved for conversion of convertible notes and for issue upon exercise of outstanding warrants at $7.50 per common share to May 15, 1979.

In addition 100,000 common shares were originally reserved for issuance to officers and key employees under the Company's Employee Stock Option Plan, of which 30,600 shares have been exercised to August 31,1977. At August 31,1977, 27,900 shares were optioned to officers and 21,759 shares to other employees at prices ranging from $3.75 to $7.50 with varying expiry dates to April 1982.

9. Earnings per common share

Earnings per common share have been calculated on the weighted average number of shares outstanding during the year.
Fully diluted earnings per share are $1.19 for the year ended August 31, 1977. Fully diluted earnings per share have been calculated on the basis of the following assumptions:

(a) the conversion at the beginning of the year of convertible notes resulting in an increase of earnings of $6,150 after tax; and

(b) the exercise at the beginning of the year of all rights and options with imputed earnings, after tax, amounting to $131,000 on cash received which would have been used to retire certain mortgages and a portion of bank indebtedness.

10. Other statutory information

	1977	1976
Number of directors	**11**	11
Aggregate remuneration of directors as directors	**$ 10,500**	$ 10,500
Number of officers	**12**	11
Aggregate remuneration of officers as officers	**$371,425**	$367,973
Number of officers who were also directors	**2**	2

11. Long term leases

The Company has lease commitments with terms expiring up to 2002, exclusive of renewals. Maximum rentals to be charged to earnings are as follows for each of the periods shown:

For the year:	1978	$ 1,271,300
	1979	1,159,500
	1980	1,046,000
	1981	991,000
	1982	949,000
For the following:		
	1983 to 1987	3,684,300
	1988 to 1992	3,191,300
	1993 to 1997	1,576,400
	1998 to 2002	410,800
		$14,279,600

During the year ended August 31, 1977 rent expense of $1,281,345 has been charged to operations.

12. Contingent Liabilities

(a) The Company is liable as an original guarantor in respect of a first mortgage on the nursing home sold by a subsidiary during 1976. The principal balance outstanding under this mortgage at August 31, 1977 was approximately $1,550,000.

(b) As a result of its purchase of a business in 1971 the Company has assumed a contingent liability under a mortgage indemnity agreement of up to $100,000.

(c) In connection with an agreement to manage two nursing homes in the State of Indiana in the United States, the Company agreed in 1976 to guarantee the obligations of the purchaser of the two homes, and its parent corporation, in respect of both a first mortgage in the amount of approximately U.S. $303,000 and a long term lease requiring minimum annual payments of approximately U.S. $75,000 and terminating in 1999. The management agreement, at the option of the Company, is to remain in effect until it has no further obligation under either the mortgage or the lease.

(d) The Company, under certain circumstances, may be required to acquire, at a price based upon a multiple of earnings, a portion or all of the remaining 20% minority interest in United Health Maintenance, Inc.

13. Anti-inflation legislation

Effective October 14, 1975, the Company became subject to the Anti-Inflation Act which legislation provides for restraint of prices, profit margins, employee compensation and dividends.

This Act provides that if a body, pursuant to any other Act or law, establishes or approves prices or profit margins of a supplier or the basis on which prices charged by a supplier are calculated, then that regulatory body should apply such of the Anti-Inflation guidelines as are applicable when establishing or approving rates. In addition, for Saskatchewan regulated operations, the rates established in the regulatory process are controlled by the Saskatchewan Public Sector Price and Compensation Board. In the above circumstances, the Federal Anti-Inflation Board does not monitor and control these prices and profit margins.

The prices and profit margins of the other operations of the companies, other than operations in the United States, are subject to Anti-Inflation Board control.

The current dividend policy established by the Company is within the restrictions imposed by the present anti-inflation legislation.

extendicare ltd.

COMMUNITY HEALTH SERVICES
one yonge street, toronto, ontario M5E 1E5

Shareholders are invited to attend the company's Annual Meeting at 10 a.m., February 21, 1978, in the Library Room of the Royal York Hotel, Toronto.

Board of Directors

*Harold L. Livergant
Chairman of the Board and President

*James A. Bradshaw
Solicitor
Campbell, Godfrey & Lewtas

*H. Hoyle Campbell, M.D.
Surgeon

William E. Hewitt
Vice-President, Finance
Allpak Products Limited

John MacKay

Eleanor McKinnon

*Derril G. McLeod
Solicitor
Pedersen, Norman, McLeod & Todd

Carole Pulver

J. Russell Scott, M.D.
Physician

Martin D. Shyba
Director and Executive Consultant

*Jean-Paul Tessier
President
BGL Construction Ltd.

*Executive Committee Member

Officers

Harold L. Livergant
Chairman of the Board and President

J. Wesley Carter
Executive Vice-President

Richard A. Gardner
Senior Vice-President, Administration

Jacob Birbrager
Senior Vice-President, Engineering

Winston Ling
Senior Vice-President, Finance

Gerald P. Hiebert
Vice-President and General Manager, Health Care Division - Canada

Donald P. Schurman
Vice-President

Steven P. Currie
Treasurer

Richard L. Bertrand
Controller

Benjamin J. Hutzel
Secretary

Medical and Technical Advisory Board

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B.Sc., Ph.D.

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M.D., F.C.F.P.

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M.D., Ph.D., F.R.C.P.(C),
Dip. Bact.

W. Harding LeRiche,
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M.R.C.(PATH)

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F. O. Wishart,
M.D., D.P.H., C.R.C.P.

J. S. Wootliff,
F.R.C.P.(C), M.B.,
M.R.C.(PATH)

Transfer Agents for Common Shares

Montreal Trust Company

Trustee for Debentures

Canada Permanent Trust Company

Auditors

Thorne Riddell & Co.

Legal Counsel

Campbell, Godfrey & Lewtas

Bankers

Bank of Montreal

Canadian Imperial Bank of Commerce

HEALTH CARE DIVISION — CANADA

VICE-PRESIDENT AND GENERAL MANAGER:
GERALD P. HIEBERT
VICE-PRESIDENT: DONALD P. SCHURMAN
Head Office: 1 Yonge Street, Suite 900,
Toronto, Ontario. M5E 1E5. Telephone (416) 361-0572

Skilled nursing centres, owned and operated by Extendicare

ONTARIO

Haliburton	Ottawa - Starwood
Kingston	Peterborough
London	Port Stanley
Mississauga	St. Catharines
Oakville	Sudbury
Oshawa	Toronto - Highbourne
Ottawa - Medex	Toronto - North York
Ottawa - New Orchard	Toronto - Scarborough

SASKATCHEWAN

Moose Jaw	Regina - Sunset Drive
Regina - Parkside	Saskatoon
Regina - Rae Street	

Skilled nursing centres, managed by Extendicare

Delaware Nursing Home (1977) Inc., Delaware, Ontario.
Country Village Incorporated, Woodslee, Ontario.
Hyde Park Nursing Home Ltd., Guelph, Ontario.
Tendercare Nursing Homes Ltd., Sault Ste. Marie, Ontario.
Frank Eliason Centre, Saskatoon, Sask. (hospital)

Diagnostic Services

DIRECTOR: DAWN J. JEFFERY
4949 Bathurst Street,
Toronto, Ontario, M2R 1Y1. Telephone: (416) 223-9575.
13 locations in Metropolitan Toronto.

Para-Med Personnel Services Ltd.

DIRECTOR: ELIZABETH R.S. KLINE
Head Office: 55 Queen Street East, Suite 704,
Toronto, Ontario, M5C 1R6. Telephone: (416) 864-9575

Branch offices in: London, Ottawa.

EXTENDICARE DEVELOPMENT AND MANAGEMENT LTD.

PRESIDENT: JOHN H. CARTER
VICE-PRESIDENT: R. A. WATT
Head Office: 1 Yonge Street, Suite 900,
Toronto, Ontario, M5E 1E5. Telephone: (416) 361-0572

HARTZ-STANDARD LTD.

PRESIDENT: JAMES W. DUNCAN
VICE-PRESIDENT: RICHARD G. PONESSE
VICE PRESIDENT: JACK O. SHYBA
VICE-PRESIDENT: GEORGE A. STEWART
Head Office: 24 Metropolitan Road,
Scarborough, Ontario. M1T 2T8. Telephone: (416) 291-5541

Division offices in:

Vancouver	Toronto (Retail Store)
Calgary	Ottawa
Saskatoon	Montreal
Winnipeg	Dartmouth, N.S.
Scarborough	St. John's, Nfld.

MEDCO CENTERS, INC.

PRESIDENT: ERNEST C. SHORTLIFFE, M.D.
VICE-PRESIDENT: WILEY J. BONEY
VICE-PRESIDENT: WILLIAM T. GALA
Head Office: 405 Carpenter Street,
Evansville, Indiana 47703 Telephone: (812) 422-3231

Nursing homes owned or leased by Medco

INDIANA

Chandler	French Lick
Elkhart	Medco Annex
Evansville	Medco Centre
Christian Manor	Huntingburg
Evansville - North	Loogootee
McCurdy Residential	Mount Vernon
Quality Care	

KENTUCKY

Bowling Green	Hardinsburg
Brandenburg	Henderson
Campbellsville	Morganfield
Elizabeth Town	Owensboro
Fordsville	Paducah
Frankfort	Pembroke
Franklin	Springfield

Nursing homes managed by Medco

Clarksville, Indiana; Danville, Indiana;
Dallas, Texas.

UNITED HEALTH MAINTENANCE, INC.

PRESIDENT: KENNETH L. BLUM
VICE PRESIDENT: LAURENCE A. MANCHIO
Head Office: 3610 Milford Road (3rd Floor),
Baltimore, Maryland, 21207. Telephone: (301) 655-0300

Area Offices:

Washington, D.C.	Buena Park, California.
Atlanta, Georgia	Los Angeles, California.
Hartford, Connecticut	